Farm Service Agency

Background Information

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USDA United States Department of Agriculture

Services for Farmers

Background

The Farm Service Agency (FSA), an agency of the U.S. Department of Agriculture, administers farm commodity and conservation programs for farmers and makes farm loans. FSA programs are primarily directed at agricultural producers or, in the case of loans, at those with farming experience.

FSA maintains its headquarters in Washington, D.C. Offices are located in each State, usually in a State capitol or near a State land-grant university, and in most agriculturally productive counties. State and county FSA committees, whose members are actively engaged in farming or ranching, administer and oversee FSA programs, activities, and the field activities of FSA.

1996 Farm Bill

The 1996 Farm Bill, which became law on April 4, 1996, significantly changed U.S. agricultural policy. The new Farm Act removes the link between income support payments and farm prices (in place since the '30s) by providing for seven annual fixed but declining "production flexibility contract payments" whereby participating producers may receive government payments largely independent of farm prices, in contrast to the past when deficiency payments were dependent on farm prices.

Transition Payments

For decades, USDA made "deficiency payments" to producers of wheat, feed grains, cotton, and rice to make up the differences between target prices and seesawing market prices. The new bill caps spending for the first time, guaranteeing farmers a series of shrinking "transition payments" based on past subsidies, through fiscal year 2002. At the same time, the government no longer requires land to be idled or denies payments if farmers switch from their historical crop.

Contract Required

To receive payments and loans on program commodities, producers must enter into a contract for the period 1996-2002. That contract requires participating producers to comply with existing conservation plans for the farm, wetland provisions, and planting flexibility provisions, as well as to keep the land in agricultural uses. Farmers need not obtain catastrophic crop insurance if they agree to waive eligibility for disaster assistance.

A farm's eligibility to enter into a contract depends on whether it had at least one crop acreage base that participated in a production adjustment program for any of the crop years 1991 through 1995.

The 1996 Farm Bill requires USDA to hold a one-time sign up from May 20 through July 12, 1996. This was the only opportunity for producers to enroll, and those who failed to do so will not be eligible at a later date. There will be no further additional sign ups except for land coming out of the Conservation Reserve Program.

Farmers who entered into a contract also are eligible for market transition loans at county FSA county offices. Although the public may obtain general information from Washington, D.C. headquarters and State offices, county offices administer all programs. Parties seeking forms and program applications should seek them at the county office in which their land is located.

Commodity Loan Programs

FSA finances commodity loan programs through the Commodity Credit Corporation (CCC), a government entity for which FSA provides operating personnel. The CCC helps maintain balanced and adequate supplies of farm commodities and helps in their orderly distribution. The CCC's charter act authorizes it to support the prices of commodity loans through loans, purchases, payments and other operations. The act also makes available to CCC materials and facilities required in the production and marketing of farm commodities.

FSA administers commodity loan programs for wheat, rice, rye, grain sorghum, barley, oats, oilseeds, tobacco, peanuts, upland and extra long staple cotton, and sugar. FSA programs for these crops help stabilize farm income, help create a balance between the supply and demand of these crops, and help farmers at harvest time by providing interim financing.

CCC Commodity Loans

A producer must have entered into a Production Flexibility Contract to be eligible for nonrecourse marketing assistance loans for wheat, feed grains, rice and upland cotton. FSA makes CCC commodity loans to eligible farmers on field crops using the stored

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crop as collateral. Loan rates are designed to keep the products competitive. CCC commodity loans are "nonrecourse," which means that a producer can forfeit or deliver the commodity to the government to discharge the loan in full. Any production of a contract commodity by a producer who has entered into a production flexibility contract is eligible for loans.

Commodity Purchase Programs

Under the dairy price support program, CCC buys surplus butter, cheese, and nonfat dry milk from processors at announced prices to support the price of milk. These purchases help maintain market prices at the legislated support level. The 1996 Farm Act eliminates dairy price support after December 31, 1999.

CCC also provides financing for the purchase, storage and disposal of commodities in federal stocks. FSA employees are the administrative agents for CCC. One responsibility is the inventory management of CCC's bulk and processed products. Over 10,000 commercial warehouses across the Nation are approved for CCC storage contracts, and FSA managers work closely with the commercial trade. FSA employees also work closely with USDA's Food and Consumer Service to purchase and deliver foods for the national school lunch and domestic feeding programs.

Beyond the marketplace, CCC commodities fill the need for hunger relief both in the United States and in foreign countries. Donated to "Food for Peace" and to programs administered by voluntary organizations, these U.S. farm products and foods help fight hunger worldwide.

Crop Insurance

Beginning with 1996 spring-planted crops (and 1996 fall-planted crops at the option of the Secretary of Agriculture), purchase of crop insurance is no longer required to be eligible for farm program benefits if producers waive all emergency crop loss assistance.

Beginning with the 1997 crop year, dual delivery of crop insurance by the FSA and private insurance agents is eliminated in states (or portions of states) that have adequate access to private crop insurance providers.

Farm Loans

FSA has direct and guaranteed loan programs to help farmers who are temporarily unable to obtain private, commercial, credit. Often these are beginning farmers who have insufficient net worth to qualify for commercial credit. In other cases, these are farmers who have suffered financial setbacks from natural disasters, or who have limited resources with which to establish and maintain profitable farming operations.

Farmers who qualify obtain their credit needs through the use of loan guarantees, where a local agricultural lender makes and services the loan, and FSA guarantees the loan up to a maximum of 90 percent. FSA also has the responsibility of approving all loan guarantees and providing monitoring and oversight of lenders' activities.

For those unable to qualify for a loan guarantee from a commercial lender, FSA also makes direct loans. These loans are made and serviced by an FSA official, who provides credit counseling and supervision to its direct borrowers by assessing and evaluating all aspects of the farming operation. For example, the FSA official evaluates the adequacy of the real estate, facilities, machinery, equipment, financial and production management, and the farmer's goals for the operation. Weaknesses in any phase of the operation are identified and prioritized, and the FSA official works one-on-one with the farmer to develop a plan of supervision that will overcome the weaknesses and ultimately result in the farmer's graduation to commercial credit.

Farm loans can only be approved for those who have repayment ability, and the loans must be fully secured and are not "non-recourse." Local FSA offices have further information about these loans.

Conservation Programs

FSA administers the Conservation Reserve Program (CRP) that protects fragile farmland by encouraging farmers to stop growing crops on highly erodible and environmentally sensitive lands. Farmers plant these lands in grass or trees and receive an annual rental payment for the term of the multi-year contract. FSA works with the Natural Resources Conservation Service and other partner agencies to deliver other conservation programs such as the new Environmental Quality Incentives Program (EQIP) to farmers and ranchers.